

Using transformational leadership to enhance the development of corporate strategy focused on a community's common interests

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ABSTRACT

Little systematic research has been conducted to advance understanding of how transformational leadership enhances the development of corporate strategy focused on a community's common interests. Using data from 50 Portuguese firms, we examined the role played by transformational leadership and its four dimensions—namely, idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration—as well as ethical integrity in firms' strategic orientation to corporate social responsibility. The results indicated that transformational leadership is significantly positively related to a firm's strategic orientation to corporate social responsibility. However, leaders' ethical integrity was not significantly linked to the adoption of corporate social responsibility practices. These findings suggest that further research is needed in regard to leaders' ethical integrity and firms' social responsibility orientation. Practitioners may also benefit from these findings by using them to transform themselves into “truly transformational leaders” who incorporate corporate social responsibility as a core strategic value within their firms.

Keywords: leadership, transformational leadership, business ethics, ethical integrity, corporate social responsibility.

1. Introduction

Leadership and leaders have long captured the attention of scholars. During the last seventy years, organizational leadership theory has produced several approaches including democratic versus autocratic leadership styles (Bass & Valenzi, 1974; Yukl, 1971), directive versus participative (Bass & Valenzi, 1974; Vroom & Yetton, 1973), task versus relationship (Hersey & Blanchard, 1969, 1982), initiation versus consideration (Fleishman, 1989; Schriesheim & Kerr, 1974), and path-goal theory (Evans, 1970; Georgopoulos, Mahoney & Jones, 1957; House, 1971). Due to the growing inadequacy of these approaches to explain some organizational phenomena of the 1980s, a new paradigm emerged with the “new leadership” approach, highlighted by the charismatic and transformational leadership theories (Avolio, Bass, & Jung, 1999; Bass, 1985; Bass &

Avolio, 1992; Bass & Steidlmeier, 1999; Bryman, 1992; Burns, 1978; Conger & Kanungo, 1994).

Leadership values, attributes, and behaviors are believed to affect firms' strategic decision making and decision implementation as a growing trend exists for integrating the micro-level behavior with the macro-level phenomena (House & Aditya, 1997; House, Rousseau & Thomas-Hunt, 1995), which might explain the emergence of the neo-charismatic paradigm. Such leaders are able to articulate visions based on strongly held ideological values and powerful imagery that stimulate innovative solutions for major problems and foster radical changes and high performance expectations. These leaders also generate high degrees of follower confidence, motivation, identity, trust in the leader, and emotional appeal (House & Aditya, 1997).

A long discussion about corporate social responsibility (CSR) followed Bowen's (1953) seminal book *Social Responsibilities of the Businessman* (Garriga & Melé, 2004). Although several approaches to CSR have emerged, stakeholder theory (Freeman, 1984) has gained center stage. This theory provides a "new way of thinking about strategic management" (Freeman, 1984, p. vi), incorporating a holistic perspective of the firm. According to Freeman, stakeholders of the firm act as internal and external forces affecting the accomplishment of goals and strategic plans. Thus, managers using this framework are able to manage their organizations more effectively.

The current global financial crisis has once again raised concerns regarding the lack of moral and ethical values among certain leaders, particularly in the field of investment banking. Meanwhile, the emerging importance of CSR and sustainable development has fostered consciousness for social, economic, and environmental dimensions—the "triple bottom line" (Elkington, 1997). Consequently, leadership and CSR are issues of utmost importance for practitioners and scholars alike.

2. Dimensions of Transformational Leadership, Ethical Integrity, and CSR

The current research aims to analyze the impact of the transformational leadership construct—as well as its four dimensions—and ethical integrity on a firm's strategic

orientation to CSR. Figure 1 depicts the proposed conceptual model, which is based on relevant theoretical frameworks of transformational leadership and strategic CSR.

(Insert Figure 1 about here)

2.1. Transformational leadership and CSR

The concept of transformational leadership was first introduced by Burns (1978) and further developed by Bass and associates (Avolio et al., 1999; Bass, 1985, 1999; Bass & Avolio, 1992, 2008; Bass & Steidlmeier, 1999; Bass, Avolio, Jung & Berson, 2003; Bass, Waldman, Avolio & Bebb, 1987; Hater & Bass, 1988). According to Bass (1985), leadership must be transformational to induce followers' performance beyond expectations. A transformational leader is the one who motivates subordinates to do more than originally expected by i) raising the level of awareness (the level of consciousness about the importance and value of designated outcomes and ways to achieve this level); ii) getting subordinates to transcend their own self-interest for the sake of the team, organization, or larger polity; and iii) altering the need level to expand their portfolio of needs and wants (Bass, 1985; Bass & Avolio, 2008).

CSR refers to actions that aim to advance (or acquiesce in the promotion of some social good) beyond the immediate interests of the firm and its shareholders as well as beyond what is required by law (McWilliams & Siegel, 2000, 2001; Waldman, Siegel & Javidan, 2006). Firms are increasingly being held responsible for the conditions under which products are produced, with stakeholders—including employees, customers, suppliers, government, community groups, and shareholders—taking an active role in this topic. Some organizations already consider societal interests in using the concept of CSR, incorporating the creation of social, economic, and environmental values as a unique selling point.

The CSR literature provides a linkage between transformational leadership and a firm's orientation to CSR. Bass and Steidlmeier (1999) argued that leadership should be regarded in the context of stakeholder theory (Freeman, 1984), where workers, customers, suppliers, local communities, and governments have a legitimate strategic and moral stake in the firm. The authors further indicated that transformational leadership can help people develop the

common interests of a community beyond the aggregate interests of its individuals. Thus, transformational leadership is associated with advanced stages of moral development, where leaders take all stakeholders' interests into account and participate in organizational governance based on universal ethical principles (Graham, 1995).

Some have tried to explain the benefits of using CSR as an instrument. For example, agency theory defends the idea that managers can use CSR for their own profit (Wright & Ferris, 1997). In addition, those who promote the resource-based view (Russo & Fouts, 1997) and the theory of firm contributors (McWilliams & Siegel, 2000, 2001) assert that CSR is one way to improve firm profitability. Meanwhile, stakeholder theory postulates that an optimal level of CSR exists that will maximize profit and satisfy stakeholder groups' demand for CSR (McWilliams & Siegel, 2000, 2001).

More recently, Waldman et al. (2006) used transformational theory to explore the role of CEOs in determining the extent to which their firms engage in CSR. The authors examined CEOs' charismatic leadership and intellectual stimulation, finding that the latter was significantly associated with the propensity of the firm to engage in strategic CSR. This finding raises the need for further testing of the relationship between transformational leadership and the firm's orientation to CSR. Therefore, we postulate that:

H1. CEO transformational leadership is positively related to the firm's strategic orientation to CSR.

2.1.1 Idealized influence and CSR

Transformational leaders arouse and inspire others with a vision of what can be accomplished with extra personal effort. Subordinates view leaders in an idealized way, identifying themselves with them and their vision; as such, leaders wield much power and influence over their followers (Bass & Avolio, 2008). A leader who calls for "universal brotherhood" (Bass & Steidlmeier, 1999, p. 5) has a shared vision that makes him a likable and honorable hero worthy of identification and imitation who has a strong need for changing the status quo (Conger & Kanungo, 1994).

Shamir, House and Arthur (1993) suggested that charismatic leaders engage followers' self-concepts with greater social causes. In fact, social identity theory may provide a broader

framework for better understanding linkages among charismatic leadership, identification processes, and followers' pursuit of CSR (Waldman et al., 2006). Based on the assumption that charisma translates into moral leadership, which in turn facilitates the existence of CSR, Waldman et al. (2006) tested the relationship between CEOs' charismatic leadership and the propensity of firms to engage in CSR. Their findings demonstrated that strategically orientated CSR was not significantly related to charismatic leadership. The authors suggested further research on this issue, especially with a focus on the moral and ethical qualities of the leader (Waldman et al., 2006). Despite Waldman et al.'s (2006) findings—but encouraged by the framework of social identity theory—we expect to find a positive relationship between idealized influence and firms' orientation to CSR:

H1a. CEOs' idealized influence is positively related to firms' strategic orientation to CSR.

2.1.2 Inspirational motivation and CSR

Bass and Avolio (2008) argued that inspirational leaders articulate shared goals and mutual understanding of what is right and what is important. This inspirational influence is emotional; it employs or incorporates non-intellectual, emotional qualities that appeal to feelings, sentiments, and emotions (Bass, 1985). The inspirational appeals of the “truly transformational leader” tend to focus on the best in people—namely, harmony, charity, and good works. Based on its definition, “truly transformational leaders” are inwardly and outwardly concerned about the good that can be achieved for the group, organization, or society for which they feel responsible (Bass & Steidlmeier, 1999).

Some empirical studies using the Multifactor Leadership Questionnaire (MLQ) found a highly positive correlation between idealized influence and inspirational motivation (Bycio, Hackett & Allen, 1995; Lowe, Kroeck & Sivasubramaniam, 1996), which was the main reason that Waldman et al. (2006) chose not to include this second dimension in their study. However, based on the assumption that idealized influence and inspirational motivation are highly correlated but conceptually different (Bass & Avolio, 2008), and encouraged by Waldman et al.'s (2006) call to pursue research in a broader array of leadership components and practices, the current study postulates that:

H1b. CEOs' inspirational motivation is positively related to firms' strategic orientation to CSR.

2.1.3 Intellectual stimulation and CSR

Intellectually stimulating leaders encourage followers to think about problems in new ways, questioning their beliefs, assumptions, and values as well as developing the capacity to solve future problems in a creative and innovative way. As a result, followers develop the capacity to solve future problems unforeseen by the leader and learn to be creative and innovative. Leaders become intellectually stimulating to the extent that they can discern, comprehend, conceptualize, and articulate to their followers the opportunities and threats facing their organization as well as its strengths, weaknesses, and comparative advantages. The status quo is then questioned, and new, creative methods of accomplishing the organization's mission are explored (Bass & Avolio, 2008).

Strategic leadership theory has provided a framework where leaders' values, experiences, and knowledge impact their strategic decisions, which in turn affects organizational performance. In fact, leaders' cognitive or intellectual capacity has been emphasized as a major component of strategic leadership, especially at higher levels of management (Boal & Hooijberg, 2001).

Waldman et al. (2006) argues that intellectually stimulating leaders will use their conceptual capacity to scan and think broadly about the environmental context and the manner in which a wide variety of organizational stakeholders may be served; these leaders realize that success in such an environment requires strong relationships with a variety of key stakeholders as well as a strategic perspective that includes CSR. In their study of 56 US and Canadian firms, Waldman et al. found a significant relation between CEOs' intellectual stimulation and the propensity of the firm to engage in strategic CSR. Based on these results, it is posited that:

H1c. CEOs' intellectual stimulation is positively related to firms' strategic orientation to CSR.

2.1.4 Individualized consideration and CSR

The transformational leader treats each follower as an individual and provides coaching, mentoring, and growth opportunities in order to expand and elevate followers' needs in an attempt to maximize and develop their full potential (Bass, 1985; Bass & Avolio, 2008). In this process, the leader develops followers into effective transformational leaders, which is called the "cascading effect" (Bass & Avolio, 2008) or "falling dominoes effect" (Bass et al., 1987). Bass and Avolio mentioned several examples (e.g., in one organization, a CEO changed the strategic plan after receiving feedback from his associates; in another organization, the CEO changed his attitude to create a more harmonious culture among associates after receiving their feedback) in which CEOs apply the "cascading effect" to the organization and received input and feedback from followers.

Despite the individual-level focus of this dimension (Waldman et al., 2006), which could prove difficult to link to high-level organizational phenomena such as strategic CSR, the "cascading effect" suggests a probable linkage between individually considerate CEOs and firms' CSR strategic orientation. In addition, individualized consideration underscores the necessity of altruism (Bass & Steidlmeier, 1999). As such, altruistic leaders may be perceived as having higher integrity, which might have a symbolic effect on followers when pursuing CSR (Waldman et al., 2006). Ultimately, when leaders recognize and elevate followers' needs into self-actualization (Maslow, 1998), they may provide the necessary linkage to the organizations' mission by pursuing the common good of a community (Bass & Avolio, 2008; Bass & Steidlmeier, 1999; Waldman et al., 2006). Therefore, we argue that:

H1d. CEOs' individualized consideration is positively related to firms' strategic orientation to CSR.

2.2. Ethical integrity of leadership and CSR

Burns (1978) and Bass (1985) have similar concepts of transformational leadership, with their main divergence relating to the moral level of the transformational leader. According to Bass (1985, p. 20), Burns "saw the transformation as one that was necessarily elevating, putting his emphasis on whether society ultimately benefits from them." Meanwhile, Bass

argued that transformational leadership is not necessarily beneficial leadership. Indeed, actions could be costly to all concerned rather than beneficial. As such, Bass would consider Hitler to be a transformational leader whereas Burns likely would not.

However, in subsequent works, Bass distinguishes between “truly transformational leaders” and “pseudo transformational leaders,” wherein the former share a genuine interest in others’ welfare (Bass & Avolio, 2008; Bass & Steidlmeier, 1999). “Truly transformational leaders” must motivate followers to voluntarily identify with the organization and its standards of conduct as well as willingly fulfill its purpose. This leadership style transforms followers into leaders who will take charge of their own ethical behavior (Howell & Avolio, 1992). Morality raises the level of human conduct and ethical aspiration and has a transforming effect on leaders and followers (Burns, 1978). Thus, transformational leadership is associated with post-conventional stages of moral development, which uses universal ethical principles to solve dilemmas serving the common good (Graham, 1995); however, not all leaders evolve to this stage, and some will even develop a “shadow” side (Lichtenstein, Smith & Torbert, 1995). Transformational leadership is in place when leaders’ end values such as integrity, honor, and justice are adopted by followers (Kuhnert & Lewis, 1987), provoking a “cascading effect” within the organization (Bass & Avolio, 2008).

Stakeholder theory, regarded as the dominant paradigm in CSR (McWilliams & Siegel, 2001), argues for a necessary alignment between a firm’s strategy and social and ethical concerns. Managers must not only regard ethics as a necessary ingredient in the strategic analysis of what they stand for, but also instill a moral purpose in employees (Freeman, 1984). Top management’s moral sentiments are reflected in the firm’s behavior when contracting with their stakeholders, showing mutual trust and cooperation and being socially beneficial to the firm as well as providing a competitive advantage over firms that do not (Jones, 1995; Jones & Wicks, 1999).

The stakeholder approach places ethics as the core component in CSR (Garriga & Melé, 2004). Freeman (1994) dubbed it a “normative core” linked to the way in which firms should be governed and managers should act. Despite the criticisms of normative stakeholder theory, as demystified and explained by Phillips, Freeman and Wicks (2003), several studies on normative ethical theories have been produced in recent years, linking

these principles with the formulation of the firm's strategy. For example, Turner, Barling, Epitropaki, Butcher and Milner (2002) found that managers scoring high on moral reasoning showed more transformational behaviors. Thus, followers would ideally perceive effective leaders as displaying a level of integrity according to followers' expectations (Craig & Gustafson, 1998). Parry and Proctor-Thomson (2002) also found a significant relationship between perceived integrity and transformational leadership.

Based on the discussion thus far, the possibility that moral aspects of leadership might directly impact CSR needs to be further investigated. Thus, we postulate:

H2. CEOs' ethical integrity has a positive relationship on firms' CSR orientation.

3. Method

3.1. Participants

The 500 largest firms in Portugal were identified as potential participants as these firms are more likely to have already adopted CSR strategies. Some of the firms are listed on the Euronext stock exchange and have faced increasing pressure from shareholders, including institutional investors, to be socially responsible. In addition, investments to improve social responsibility performance may influence firms' corporate image and reputation—a primary concern among the largest firms. Finally, increasing pressure from customers, employees, suppliers, community groups, and governments alike will probably affect the largest firms more.

Firms participating in this study were selected from the 2008 database of the 500 largest firms in Portugal, as published by *EXAME*, a leading business and management magazine. Fifteen were not surveyed because of wrong addresses, internal restructuring, or a change in CEOs. The survey ran from April to July 2009, with 170 responses being obtained from 50 firms. Fifteen questionnaires were rejected due to the lack of consistency regarding the CEO profile in terms of tenure and gender, leaving 155 valid questionnaires from 50 firms—an average response rate of 3 questionnaires per firm. The overall response rate was 10.3%, which may be regarded by some as low; response rates per sector reached a maximum of 50% in transportation equipment and a minimum of 20% in cleaning services

and textiles. The arguably low overall response rate is not immune to the present worldwide crisis, which is often translated into internal restructuring processes, or to the sensitivity of the survey in assessing CEO leadership characteristics, which may be considered distressing to some. The CEO profile indicated that 94% of CEOs were male and only 6% female; 64% of CEOs had between 1 and 5 years of tenure in their current position. The sample includes firms from 19 of 24 possible sectors.

3.2. *Measures*

3.2.1 *Transformational leadership*

The Multifactor Leadership Questionnaire (MLQ – 5x short form) was used to assess CEOs' transformational leadership with the permission from Mind Garden, Inc. Since its inception in 1985, several researchers have used the MLQ to assess leadership qualities and test the main constructs associated with the model (Antonakis, Avolio & Sivasubramaniam, 2003; Avolio et al., 1999; Bycio et al., 1995; Carless, 1998; Den Hartog, Van Muijen & Koopman, 1997; Goodwin, Wofford & Whittington, 2001; Lievens, Van Geit & Coetsier, 1997; Tejeda, Scandura & Pillai, 2001; Yukl, 1999;). The main criticisms raised by these authors relate to inadequate discriminant validity among the factors and the inability of the initial factor structure to be replicated in empirical research. A refinement of the original scale was further introduced by Bass and Avolio (2008), who proposed a more parsimonious model underlying MLQ. Twenty items from the later version of the MLQ were used in the current study to assess CEOs' transformational leadership qualities. Each participant was asked to rate his or her CEO on a five-point scale, ranging from “not at all” (= 0) to “frequently, if not always” (= 5).

3.2.2 *Leaders' ethical integrity*

The Perceived Leader Integrity Scale (PLIS), developed by Craig and Gustafson (1998), was used to assess CEOs' ethical integrity. PLIS has 31 items corresponding to unethical leader behavior that followers find easy to recognize and assess. This four-point Likert type scale ranges from “not at all” (= 1) to “exactly” (= 4).

3.2.3 *Firms' strategic orientation to CSR*

To assess firms' strategic orientation to CSR, the current study used the sustainability progress indicator comparative evaluation methodology (SPICE) developed by Hemming, Pugh, Williams and Blackburn (2004). SPICE was previously used as a benchmarking tool to understand the sustainable development and CSR agenda of Jaguar Cars compared to other firms considered to be leaders in this field. This methodology is based on the triple bottom line concept (Elkington, 1997), which combines economic development measures with environmental and social responsibility ones, although a clear focus has been on the last two dimensions whereas the economic dimension remains largely unaddressed (Hemming et al., 2004).

Following a review of the existing literature, ten main attributes—with individual scores ranging from 0 to 5—were chosen, including compliance management, environmental management systems, performance improvement, environmental and sustainability reporting, stakeholder dialogue, product stewardship, supply chain management, eco-innovation, contribution to quality of life and community involvement, and employer of choice. Although other measures are available to assess a firm's strategic orientation to CSR, including The Times—FTSE 100, the SustainAbility, and the Business in the Community index, all share similarities to the SPICE methodology. Hemming et al. (2004) successfully used the SPICE methodology, making it appropriate for the current study.

4. Results

Tests of normality were conducted on all items of the questionnaire in order to assess normality of data. Kolmogorov-Smirnov and Shapiro-Wilk tests were used to demonstrate that data deviate from normality. Skewness and kurtosis analyses further confirmed the presence of a negatively skewed leptokurtic distribution.

(Insert Table 1 about here)

As Table 1 indicates, the average score of transformational leadership is 3.01—slightly higher than similar previous studies (e.g., Bass, 1985; Bass & Avolio, 2008; Bass et al.,

2003; Parry & Proctor-Thomson, 2002; Turner et al., 2002), which found levels of transformational leadership ranging from 2.16 to 2.68. Such differences may be explained by the fact that the current study focused on CEOs (instead of managers), who might be perceived by their followers as exhibiting more transformational leadership behavior than managers (Lowe et al., 1996). Furthermore, the current results indicated that CSR has a significant positive correlation with transformational leadership as well as with its four dimensions.

According to the data, CEOs' ethical integrity scored high, with 78% of them registering mean scores above 3 and with a global average of 3.13. These results are consistent with Craig and Gustafson's (1998) results (mean of 3.63) and Parry and Proctor-Thomson's (2002) results (mean of 3.73). In our study, only 10% of CEOs were rated below the mid-point on the PLIS scale, and a mere 2% were rated below the mid-point for integrity and transformational leadership scales. Arguably, these lower-rated CEOs might be considered the "pseudo transformational leaders," as proposed by Bass and Steidlmeier (1999), while the "truly transformational leaders" account for the remaining 90% of the sample.

A positive significant correlation between transformational leadership and ethical integrity was also identified ($r = 0.404$, $p < 0.01$). Again, these findings are consistent with Parry and Proctor-Thomson's (2002) findings, which also indicated a positive correlation between transformational leadership and perceived integrity. Indeed, authors such as Bass and Avolio (2008), Bass and Steidlmeier (1999), Burns (1978), Graham (1995), Howell and Avolio (1992), Kuhnert and Lewis (1987), Parry and Proctor-Thomson (2002), and Turner et al. (2002), to name a few, have already provided strong support for the linkage between transformational leadership and perceived integrity. However, additional research is needed to develop a comprehensive leadership theory, incorporating an ethical dimension that might contribute to a definite distinction between "truly transformational leadership" and "pseudo transformational leadership."

Finally, the CEOs' ethical integrity and the firms' strategic orientation to CSR were investigated. According to Table 1, no significant correlation exists between CEOs' ethical integrity and firms' strategic orientation to CSR, which is quite surprising despite the support in extant literature (e.g., Freeman, 1984; 1994; Garriga & Melé, 2004; Jones, 1995; Jones & Wicks, 1999). The lack of empirical studies in this area does not help explicate the

reasons for this unexpected result; however, one has to assume that corporate culture and shared values should at least act as a moderator between CEOs' moral values and firms' strategic field (Freeman, 1984).

Data analysis was carried out via logistic regression as data were not normally distributed, as shown by the skewness and kurtosis analyses. A new categorical dependent variable was created, termed "Firm Strategic Orientation to CSR," and defined as follows: (0) = "not at all orientated" and (1) = "strongly orientated." These two categories were created to break down the initial 0 to 5 scale into two subscales—0 to 3 for the first category, and 4 to 5 for the second one. Here, the objective was to determine if predictors (i.e., transformational leadership and ethical integrity) could distinguish between firms that were strongly orientated and those not at all orientated to CSR. The results are displayed in Table 2.

(Insert Table 2 about here)

Transformational leadership, as a single construct, was found to impact the likelihood that firms are oriented to CSR ($B = 6.309$, $p < 0.01$), as reported in Table 2. Similarly, the model is statistically significant, $\chi^2(2, N = 48) = 28.505$, $p < 0.001$, explaining between 44.8% (Cox and Snell R^2) and 60.3% (Nagelkerke R^2) of the variance in CSR status while correctly classifying 83.3% of cases. As shown in Table 2, only one of the independent variables made a statistically significant contribution to the model: transformational leadership, recording an odds ratio of 549.27; ethical integrity had no explanatory power in the model. Thus, the first hypothesis H1 was supported by the empirical data.

A second logistic regression with a forward stepwise method was carried out on the second-level independent variables in order to assess the explaining power of the transformational leadership dimensions to predict the likelihood that firms are oriented to CSR. Findings are displayed in Table 3.

(Insert Table 3 about here)

The model is statistically significant, $\chi^2(2, N = 48) = 31.511$, $p < 0.001$, indicating that a distinction exists between firms oriented and not oriented to CSR. As a whole, the model explained between 48.1% (Cox and Snell R^2) and 64.8% (Nagelkerke R^2) of the variance

and correctly classified 81.3% of cases. The results demonstrated that only two independent variables have a statistically significant contribution to the model: inspirational motivation and individualized consideration. Therefore, hypotheses H1b and H1d stating that inspirational motivation and individualized consideration are positively related with the strategic orientation to CSR were supported ($B = 3.49, p < 0.01$; $B = 2.753, p < 0.05$). The other two dimensions of transformational leadership—idealized influence and intellectual stimulation—quite surprisingly were not significantly associated with the dependent variable. Consequently, hypotheses H1a and H1c were not supported.

Finally, the results indicated that CEOs' ethical integrity neither predicted ($p > 0.10$) nor significantly correlated to strategic CSR ($p > 0.10$). Despite the theoretical background linking the two variables (Freeman, 1984; Garriga & Melé, 2004; Jones, 1995; Jones & Wicks, 1999), no support was found for Hypothesis 2. As previously mentioned, this result was surprising and unexpected. The organizational culture and shared values may work as moderators between the two variables, requiring additional empirical studies to clarify this potential linkage.

5. Discussion

The current study explored the relationship between CEOs' transformational leadership and firms' strategic orientation. Existing literature provides a conceptual linkage between CEOs' transformational leadership and the firms' strategic orientation to CSR (Bass & Steidlmeier, 1999; Graham, 1995), assuming that transformational leadership enhances the development of strategies focused on the common interest of the community. Based on the results, CEOs' transformational leadership and firms' strategic orientation to CSR have a positive relationship, which aligned with previous findings.

Focusing on the second-level dimensions of CEOs' transformational leadership, several researchers have demonstrated that idealized influence positively impacts followers' engagement to pursue CSR (Bass & Steidlmeier, 1999; Conger & Kanungo, 1994; Shamir et al., 1993; Waldman et al., 2006). Therefore, Hypothesis 1a outlines a positive relationship between CEOs' transformational leadership and firms' strategic orientation to CSR. However, no empirical evidence emerged to support this hypothesis in the present study, thereby corroborating the empirical findings of Waldman et al. (2006). Several

factors can explain these findings; for instance, in financial crises, CSR expenditures could be counterproductive, regardless of the CEO's charismatic appeal. On the other hand, even CEOs with little charismatic appeal may attempt to pursue CSR-orientated strategies in order to improve the firm's image and reputation. In addition, other important factors such as demands of certain stakeholder groups might impact the firm's CSR strategic orientation independently of the charismatic level of the CEO (Waldman et al., 2006).

Moving on to the second dimension, inspirational motivation is considered in the existing literature as having a focus on the good that can be achieved by the group, organization, or society for which the leader is feeling responsible (Bass & Steidlmeier, 1999). Hypothesis 1b refers to a positive relationship between inspirational motivation and firms' strategic orientation, which was confirmed by the empirical findings of this study.

Intellectual stimulation is mentioned in the reviewed literature as a vehicle leading the followers to question the status quo and present new creative ways of achieving the firm's mission as well as their conceptual capacity to think about the environmental context and create strong relationships with stakeholders (Bass, 1985; Bass & Avolio, 2008; Boal & Hooijberg, 2001; Waldman et al., 2006). Hypothesis 1c maintains that CEOs' intellectual stimulation and the firms' strategic orientation to CSR have a positive relationship. Contrary to our expectations, empirical findings in this study did not confirm this hypothesis. Surprisingly, the support provided by the theory and empirical data (Bass, 1985; Waldman et al., 2006) was not confirmed. This might be explained by the predominance of the emotional dimensions over the intellectual/rational ones in explaining the adoption of CSR strategies, specifically in the Portuguese context.

Also, individualized consideration by which leaders are able to develop followers into effective transformational leaders when defining the organization's strategic plan in pursuing the common good of a community (Bass et al., 1987; Bass & Avolio, 2008; Bass & Steidlmeier, 1999) was tested. Hypothesis 1d posits that CEOs' individualized consideration and firms' strategic orientation to CSR have a positive relationship. This hypothesis was also supported by the empirical findings, providing evidence that, in the participating firms, the "cascading effect" was truly effective in promoting a CSR strategic orientation.

Based on the dominant paradigm of CSR, which postulates an alignment between firms' strategic and ethical concerns (Freeman, 1984; Jones, 1995; Jones & Wicks, 1999; Garriga & Melé, 2004), this probable link was investigated with hypothesis 2. Despite all expectations, our findings did not provide any empirical evidence or support for this hypothesis. This might be explained by the moderating role of variables such as organizational culture and shared values. We believe that focusing exclusively on CEOs' ethical integrity will not show the "cascading effect" of the moral purpose instilled by CEOs in their followers; thus, a broader analysis of organizations' ethics is required.

6. Theoretical and Managerial Implications

This study has contributed to the theoretical discussion of the importance of leadership characteristics in the implementation of CSR strategies. First, this study added to the debate regarding how transformational leadership might impact CSR-oriented strategies. Second, by confirming the positive relation between transformational leadership and firms' strategic orientation to CSR, the study provided additional arguments for researchers to include this topic when researching social responsibility strategies. Finally, this study contributed empirical work from the Portuguese social contexts.

The new paradigm of transformational leadership has been deemed as the most effective for firms' performance (Bass, 1985); hence, the true challenge for CEOs and managers will be to develop themselves into "truly transformational leaders". These transformational leaders will consequently be able to incorporate the creation of social, economic, and environmental factors as a strategic core value within the organizations, following the triple bottom line philosophy. This should provide a holistic view of the organization, including its main stakeholders, as part of the strategic process.

7. Limitations and Future Research

The current study has several limitations that might hinder results. The low response rate obtained from the 500 largest Portuguese companies may have conditioned the main conclusions and should be considered as more exploratory. In addition, focusing exclusively on the largest companies might limit generalization to smaller companies. A broader analysis should be conducted to have a more diversified reality in terms of

leadership characteristics and CSR strategies. Furthermore, assessing the CEOs' ethical integrity as perceived by their subordinates poses ethical concerns for respondents. In fact, evaluators may be in a different stage of ethical development, seeing the CEOs' behavior from a completely different ethical perspective. Finally, this study analyzed the ethical qualities of the leader, but no analysis was carried out regarding organizational ethical values. These shared values within the organization might be directly related to CSR. The literature provides strong support for a link between CEOs' ethical integrity and transformational leadership; however, this relationship was not explored in the present study as it would require a different approach and probably a specific research study on its own. Thus, we highly recommend that future researchers explore this relationship using empirical methods.

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Figure 1 Conceptual Model based on the frameworks of Bass and Avolio (2008), Turner et al. (2002) and Waldman et al. (2006)

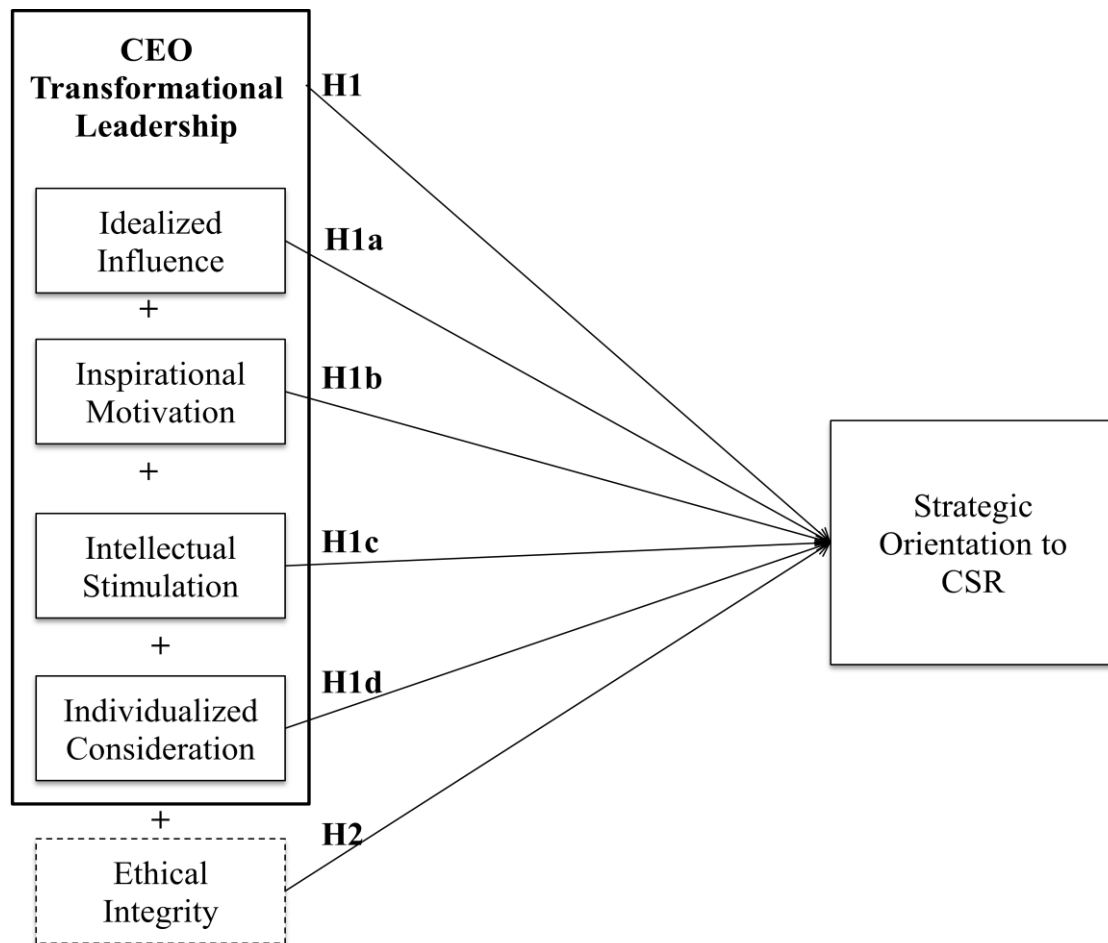


Table 1 Descriptive Statistics and Intercorrelations among Constructs Using Spearman's rho analysis (N = 48 firms)

	1	2	3	4	5	6	7
1. IS	(0.817)						
2. II	0.717□□ (0.904)						
3. IM	0.619□□ 0.731□□ (0.866)						
4. IC	0.704□□ 0.603□□ 0.559□□ (0.820)						
5. TL	0.849□□ 0.920□□ 0.828□□ 0.808□□ (0.950)						
6. Ethical Integrity	0.349□ 0.393□□ 0.457□□ 0.309□ 0.404□□ (0.960)						
7. CSR	0.485□□ 0.579□□ 0.649□□ 0.605□□ 0.692□□ 0.153 (0.939)						
Mean	2.93	3.11	3.24	2.70	3.01	3.13	3.69
Standard Deviation	0.605	0.642	0.568	0.705	0.565	0.445	0.829

Notes:

□ p < 0.10 (2-tailed); □ p < 0.05 (2-tailed); □□ p < 0.01 (2-tailed).

IS – Intellectual Stimulation; II – Idealized Influence; IM – Inspirational Motivation; IC – Individual Consideration, and TL – Transformational Leadership

Cronbach's Alphas in brackets.

Transformational Leadership – Global index after summing up and averaging the scores

Ethical Integrity - Global index after summing up and averaging the scores

CSR - Global index after summing up and averaging the scores

Table 2 Logistic Regression Model Results (N = 48 firms)

OVERALL MODEL FIT					
Goodness of Fit Measures		Value			
-2 Log likelihood (-2LL) Cox and Snell R ² Nagelkerke R ²		36.697 0.448 0.603			
		Chi-square	df	Sig.	
Omnibus Test		28.505	2	0.000	
Hosmer and Lemeshow Test		4.402	7	0.732	
VARIABLES IN THE EQUATION					
Variable	B	S.E.	Wald	Sig.	Exp(B)
Transformational Leadership	6.309	1.853	11.589	0.001	549.266
Ethical Integrity	-1.585	2.182	0.527	0.468	0.205
Constant	-15.208	8.532	3.178	0.075	0.000
CLASSIFICATION TABLE					
	Predicted				
Observed	Not Or. to CSR	Or. to CSR		% Correct	
Not Oriented to CSR	25	3		89.3%	
Oriented to CSR	5	15		75.0%	
Overall Percentage	83.3%				

Initial -2LL: 65.203; B = logistic coefficient; S.E. = standard error; Wald = Wald statistic; Sig.= significance level; Exp(B) = exponential coefficient.

Table 3 Logistic Regression Model Results (N = 48 firms)

OVERALL MODEL FIT					
Goodness of Fit Measures		Value			
-2 Log likelihood (-2LL) Cox and Snell R ² Nagelkerke R ²		33.691 0.481 0.648			
		Chi-square	df	Sig.	
Omnibus Test		31.511	2	0.000	
Hosmer and Lemeshow Test		3.907	7	0.790	
VARIABLES IN THE EQUATION					
Variable	B	S.E.	Wald	Sig.	Exp(B)
Inspirational Motivation	3.490	1.313	7.067	0.008	32.785
Individualized Consideration	2.753	1.159	5.642	0.018	15.697
Constant	-19.922	6.004	11.010	0.001	0.000
VARIABLES NOT IN THE EQUATION					
Variable	Score		Sig.		
Intellectual Stimulation	0.067		0.795		
Idealized Influence	1.086		0.297		
Ethical Integrity	0.915		0.339		
CLASSIFICATION TABLE					
	Predicted				
Observed	Not Or. to CSR	Or. to CSR	% Correct		
Not Oriented to CSR	24	4	85.7%		
Oriented to CSR	5	15	75.0%		
Overall Percentage	81.3%				

Initial -2LL: 65.203; B = logistic coefficient; S.E. = standard error; Wald = Wald statistic; Sig.= significance level; Exp(B) = exponential coefficient.